

Volume: 4  
Number: 3  
Page: 290 - 296

#### Article History:

Received: 2024-05-25  
Revised: 2024-06-12  
Accepted: 2024-07-14

## THE ROLE OF THE CEO'S FINANCIAL EXPERTISE IN COMPANY PERFORMANCE

I Gede Agus PRADNYANATA<sup>1</sup>, Anak Agung Ngurah Mayun NARINDRA<sup>2</sup>

<sup>1,2</sup>Faculty of Economics and Business, Warmadewa University, Denpasar, Bali, Indonesia

Corresponding author: I Gede Agus Pradnyanata

E-mail: [aguspradnyanata50@gmail.com](mailto:aguspradnyanata50@gmail.com)

#### Abstract:

Fast and dynamic economic growth requires companies to choose a chief executive officer (CEO) who has strong technical and managerial skills. One important ability for a company CEO to have is financial expertise. The CEO's financial capabilities can help the company manage resources more efficiently and effectively, especially during times of crisis. This research aims to determine the role of CEO financial expertise on company performance during the Covid 19 pandemic. This research is quantitative in nature using secondary data obtained from the company's annual report and financial statements. The sample for this research was 40 property and real estate companies listed on the Indonesia Stock Exchange in 2020-2022. The data analysis technique used is panel data regression analysis. The results obtained show that CEO financial expertise plays a negative and significant role in company performance. This finding explains that, during the financial crisis, the CEO's expertise was not able to improve company performance.

**Keywords:** Financial Expertise, CEO, Company Performance

## INTRODUCTION

The COVID-19 pandemic has significantly impacted various industrial sectors in Indonesia, including the property sector. One of the most demanding challenges companies face is maintaining their financial performance so that it remains positive and continues to grow amidst this challenging situation. Many State-Owned Enterprises (BUMN) have experienced a drastic decline in performance due to the COVID-19 pandemic, even experiencing losses of trillions of rupiah. Suhasil Nazara, Deputy Minister of Finance, revealed that the property sector was most heavily affected when the pandemic hit in 2020, mainly due to decreased public consumption.

The key to a company's success is its ability to generate profits. Company performance reflects all activities and measures success (Aprilliani & Totok, 2018). Measuring performance is essential in comparing how a company performs over time and identifying whether there has been an increase or decrease in achieving results.

A Chief executive officer (CEO) has an essential role in company operations, is responsible for strategic plans and decisions, and is a liaison between internal and external (Sudana & Aristina, 2017). A CEO's experience and financial skills can help make appropriate and accurate decisions and improve the company's financial reporting quality.

Research by Hakim and Tantri (2023) revealed that CEO financial expertise positively and significantly affects company performance. Qualifying the CEO's professional competence in financial expertise can result in higher corporate performance. Meanwhile, Wijaya and Darmawati's (2023) research revealed different results: CEO expertise negatively and significantly affected company performance.



This open-access article is distributed under a  
Creative Commons Attribution (CC-BY-NC) 4.0 license

From the perspective of upper echelons theory, experience, values, and personality greatly influence a person's interpretation of the situations they face and, in turn, influence their choices (Hambrick, 2007). Meanwhile, agency theory focuses on the formal relationship between the principal (shareholder) and the agent (CEO) in managing the company (Raharjo, 2007).

Based on the explanation of the phenomenon, this research aims to determine the role of CEO financial expertise in company performance in property and real estate companies. This research is expected to present a clearer and more comprehensive picture of this role.

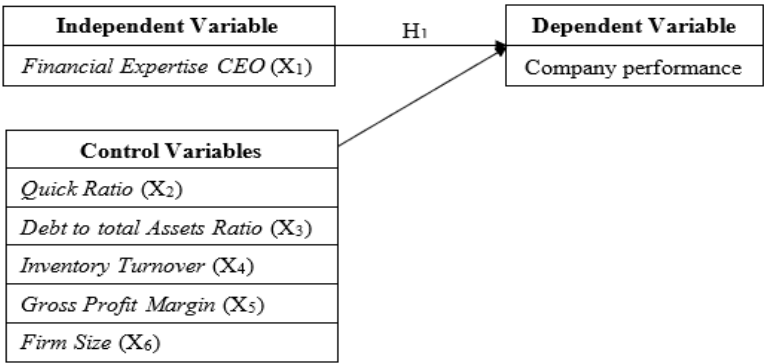
**Company Performance.** According to Sudana and Dwiputri (2018), a company performance assessment is an evaluation of the company's success over a certain period. This evaluation aims to determine whether the company is progressing so that management can make the right decisions regarding the company's future direction based on the evaluation results. The level of profit often measures a company's success it obtains.

Having clear indicators or measuring tools is essential when assessing company performance. Various methods can be used to assess company performance, including financial and market performance. This research uses financial performance as measured by profitability ratios. Several methods can be used to assess a company's profitability ratios, including return on assets, equity, and profit margin ratio (Sudana & Dwiputri, 2018).

**Financial Expertise CEO.** A chief executive officer (CEO) is crucial in running company operations, planning strategies and making decisions while liaising between internal and external companies (Sudana & Aristina, 2017). A CEO needs relevant knowledge and sufficient experience to make quick decisions. Muhammad and Pribadi (2020) explained that the level of education is one of the determining factors in cognitive abilities and decision-making abilities. CEOs with a higher educational background in corporate finance are expected to apply this knowledge in managing company finances to produce more accurate and high-quality financial reports.

The presence of a financial expert on the board of directors can be an added value, indicating that the company prioritizes high-quality financial practices in its financial reporting. This also reflects the company's commitment to implementing transparency in financial practices and reporting and actively seeking advice and supervision to improve company performance. A CEO's financial capabilities also emphasize the importance of accounting and internal audits by developing and supervising strict tasks (Yelvita, 2022).

**Conceptual Framework.** This research uses dependent variables, independent variables and control variables. For more details, see Figure 1.



Source: Processed Data (2024)

**Figure 1.** Conceptual Framework



This open-access article is distributed under a Creative Commons Attribution (CC-BY-NC) 4.0 license

**Research Hypothesis.** CEO Financial Expertise refers to a CEO's skills, including financial and non-financial aspects acquired throughout his career. Hakim and Tantri's research (2023) revealed that CEO financial expertise positively and significantly affects company performance. Qualifying the CEO's professional competence in financial expertise can result in higher corporate performance. Based on this statement, the following hypothesis can be formulated:

H1: CEO financial expertise plays a positive and significant role in company performance

## METHODS

This research occurred on the Indonesian Stock Exchange, accessible via the website [www.idx.co.id](http://www.idx.co.id). The population of this research is property and real estate companies listed on the IDX in 2020-2022. The purposive sampling method resulted in 40 companies as samples with 120 observations. This research is quantitative and based on secondary data obtained from the company's annual report and financial statements.

In this research, the dependent variable is used, namely company performance, which is calculated by the ROA value; the independent variable, namely the CEO's financial expertise, is measured using a dummy variable which is calculated from whether a company CEO has attended accounting training or has held a position related to financial reporting, such as CFO, auditor or senior accountant; and control variables namely QR, DAR, IT, GPM and firm size. Data collection method using data documentation techniques. The data analysis technique is panel data regression analysis.

## RESULT AND DISCUSSION

Based on the results of descriptive statistics, Table 1 below presents the mean value, median value, maximum value, minimum value and standard deviation value for each variable.

**Table 1.** Descriptive Statistics Results

Variable	Y	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>
Mean	2,57	0,47	1006,83	32,50	486,91	50,61	11,40
Median	2,03	0,00	95,63	30,63	25,95	51,35	11,95
Maximum	42,96	1,00	27037,62	79,12	10043,22	98,10	13,81
Minimum	-37,52	0,00	5,13	0,20	0,42	-133,38	5,97
Std. Dev.	6,88	0,50	4178,08	18,26	1708,74	24,53	1,84
Observations	120	120	120	120	120	120	120

Source: Processed Data (2024)

Based on the results of the descriptive statistical tests presented, it was found that there were data values that were much different from other values in the data set or are often called data outliers. The presence of outliers can result in bias in the estimation of statistical parameters and interfere with the interpretation of analysis results, especially when the data are not normally distributed. Therefore, data outliers are needed. The outlier data results are explained in Table 2 below.

**Table 2.** Outlier Data Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10,65	2,15	4,95	0,00



This open-access article is distributed under a Creative Commons Attribution (CC-BY-NC) 4.0 license

X <sub>1</sub>	-1,61	0,60	-2,70	0,00
X <sub>2</sub>	-4,32	7,33	-0,59	0,56
X <sub>3</sub>	-0,03	0,02	-1,71	0,09
X <sub>4</sub>	0,00	0,00	3,35	0,00
X <sub>5</sub>	-0,00	0,02	-0,31	0,76
X <sub>6</sub>	-0,58	0,18	-3,32	0,00
@ISPERIOD ("28")	17,65	3,03	5,84	0,00
@ISPERIOD ("30")	16,00	3,05	5,25	0,00
@ISPERIOD ("61")	-41,01	3,15	-13,04	0,00
@ISPERIOD ("65")	19,57	4,01	4,88	0,00
@ISPERIOD ("82")	-11,05	3,09	-3,58	0,00
@ISPERIOD ("93")	41,49	3,06	13,57	0,00
Observations: 120				

Source: Processed Data (2024)

Based on the outlier data results, six periods were obtained that had to be removed to continue data testing. The periods that must be excluded are the 28th line period, the 30th line period, the 61st line period, the 65th line period, the 82nd line period and the 93rd line period.

#### Model Selection, Test Chow.

**Table 3.** Chow Test Results

Effect Test	Statistic	d.f.	Prob.
Cross-section F	3,494397	(39,68)	0,0000
Cross-section Chi-square	125,398984	39	0,0000

Source: Processed Data (2024)

The probability value of the Chi-square cross section is  $0.0000 < 0.05$ , so the model used is a fixed effect.

#### Hausman test.

**Table 4.** Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10,295296	6	0,1128

Source: Processed Data (2024)

The probability value of the random cross-section is  $0.1128 > 0.05$ , so the model used is a random effect.

#### Lagrange Multiplier Test.

**Table 5.** Lagrange Multiplier Test Results

	Cross-section	Time	Both
Breusch-Pagan	9,492787 (0,0021)	6,965016 (0,0083)	16,45780 (0,0000)

Source: Processed Data (2024)

Both values of Breusch-Pagan are  $0.0000 < 0.05$ , so the model used is a random effect.



This open-access article is distributed under a Creative Commons Attribution (CC-BY-NC) 4.0 license



**Panel Data Regression Analysis.** According to the results of the analysis model selection, the random effect model is the best model for panel data regression analysis in this study.

**Table 6.** Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10,0276	2,9045	3,4524	0,0008
X <sub>1</sub>	-1,9263	0,8162	-2,3600	0,0201
X <sub>2</sub>	-7,0464	8,9000	-0,7914	0,4305
X <sub>3</sub>	-0,0469	0,0239	-1,9697	0,0526
X <sub>4</sub>	0,0005	0,0002	1,8917	0,0611
X <sub>5</sub>	-0,0018	0,0187	-0,0935	0,9357
X <sub>6</sub>	-0,4766	0,2400	-1,9986	0,0496
R-squared	0,1422			
Adjusted R-squared	0,0941			
F-statistic	2,9574			
Prob-F	0,0104			
Durbin-Waston	1,4372			
Observations: 114				
* Significance $\alpha$ : 5% or 0,05				
Source: Processed Data (2024)				

The regression results show that the IT variable has a positive role in ROA, while the financial expertise CEO, QR, DAR, GPM, and firm size variables have a negative role in ROA. The t-test results show that the CEO's financial expertise and firm size variables play a significant role in ROA, while the QR, DAR, IT and GPM variables play an insignificant role in ROA. The F-statistic value is 2.9574 with an F-prob value of  $0.0104 < 0.05$ , which means that the variables financial expertise CEO, QR, DAR, IT, GPM and firm size simultaneously play a significant role in ROA.

The adjusted R-squared value obtained was 0.0941 or 9.41%, which means that the financial expertise of the CEO, QR, DAR, IT, GPM and firm size variables could explain the ROA variable of 9.41%, while other variables influenced the rest.

**The Role of CEO Financial Expertise on Company Performance.** The results of the analysis using the t-test state that CEO financial expertise plays a negative and significant role in ROA. The negative influence shows that the higher the CEO's financial expertise, the lower the company's ROA.

The research hypothesis's direction needs to be more consistent and different from that of research by Hakim and Tantri (2023), which revealed that CEO financial expertise has a positive and significant effect on company performance. They argue that CEOs with financial expertise are more likely to be involved in financial markets and better understand financial issues, improving firm performance (Danusaputro et al., 2024).

On the other hand, Wijaya and Darmawati's (2023) research shows that CEO expertise and education negatively and significantly affect company performance. They argue that even though CEOs have high levels of expertise and education, more is needed to guarantee wisdom in decision-making, mainly because each company has different challenges and contexts. These results are also supported by previous research by Saputra (2019), which revealed that directors with unique



This open-access article is distributed under a  
Creative Commons Attribution (CC-BY-NC) 4.0 license

educational backgrounds in economics and business showed a negative relationship to company performance.

The company's performance has decreased, possibly due to external factors, such as the crisis due to COVID-19. Coincidentally, previous research examined when the company's conditions were normal and stable, whereas this research examines the years when the crisis occurred (Pratolo et al., 2024). Lowardi and Abdi's research (2021) explains that the COVID-19 pandemic has negatively and significantly impacted the financial performance of property companies. This means that the COVID-19 pandemic has been proven to reduce the financial performance of property companies due to the decline in people's purchasing power during the pandemic.

As for government policy, such as Bank Indonesia's interest rate increase policy, Hamidah et al. (2015) show that interest rates have a negative and insignificant effect on company performance. This situation may arise when interest rates increase. However, without an increase in public demand to buy new houses or apartments, investors are more likely to keep their funds in the bank rather than invest in property.

These results follow the upper echelons theory, which states that experience, values, and personality greatly influence the interpretation of top management, especially the CEO, in interpreting the company's situation and ultimately influencing their decisions (Suryani et al., 2023). In addition, these results follow the agency theory, which states that financial reporting helps meet capital providers' requests for information about company performance and manager actions, thereby reducing agency conflicts.

## CONCLUSION

Based on the t-test using panel data regression, it shows that CEO Financial Expertise plays a negative and significant role in ROA.

Based on the f test using panel data regression, the variables of financial expertise CEO, QR, DAR, IT, GPM, and firm size simultaneously play a significant role in ROA. The financial expertise variables CEO, QR, DAR, IT, GPM and firm size can explain the ROA variable of 9.41%, while other variables influence the rest.

**Limitations.** The research has limitations, including the sample size of only 40 companies, which is certainly not enough to describe the condition of the company, financial report data and annual reports are collected manually and limited to only three research years from 2020-2022, and the data available at [www.idx.co.id](http://www.idx.co.id) is still limited. Hence, it is necessary to look for additional data outside the IDX website, as well as the profile of the board of directors, which is not fully disclosed in the company's annual report.

**Suggestion.** Companies should have leaders with relevant expertise and experience in the financial sector so that they can more quickly anticipate unexpected events, such as financial crises, that can affect company performance.

Future researchers should use more supportive independent variables and add other variables not used in this research for a more recent period so that they have a more substantial influence on the dependent variable. They should also use a sample of companies related to the financial sector. Measuring company performance can use market performance, such as earnings per share (EPS), Tobin's Q, and market-to-book value.

## REFERENCES



This open-access article is distributed under a  
Creative Commons Attribution (CC-BY-NC) 4.0 license

- Aprilliani, M. T., & Totok, D. (2018). Pengaruh Tata Kelola Perusahaan, Ukuran Perusahaan dan Umur Perusahaan Terhadap Kinerja Perusahaan. *Diponegoro Journal of Accounting*, 7(1).
- Danusaputro, A., Tricahyono, D., & Sutjipto, M. R. (2024). The Success of Digital Transformation through Cloud: Revolutionary Innovation at PT Telekomunikasi Selular Indonesia. *International Journal of Social Science and Business*, 8(1), 10–26.
- Hakim, L., & Tantri, M. (2023). CEO Power, CEO Founder, CEO Financial Expertise, CEO Ownership, CEO Tenure on Bank Performance in Indonesia. *Atestasi : Jurnal Ilmiah Akuntansi*, 6(1). <https://doi.org/10.57178/atestasi.v6i1.570>
- Hambrick, D. C. (2007). Upper Echelons Theory: An Update. *Academy of Management Review*, 32(2). <https://doi.org/10.5465/AMR.2007.24345254>
- Hamidah, Hartini, & Mardiyati, U. (2015). Pengaruh Inflasi, Suku Bunga BI, Profitabilitas, dan Risiko Finansial Terhadap Nilai Perusahaan Sektor Properti Tahun 2011-2013. *JRMSI - Jurnal Riset Manajemen Sains Indonesia*, 6(1). <https://doi.org/10.21009/jrmsi.006.1.04>
- Lowardi, R., & Abdi, M. (2021). Pengaruh Pandemi Covid-19 Terhadap Kinerja dan Kondisi Keuangan Perusahaan Publik Sektor Properti. *Jurnal Manajerial dan Kewirausahaan*, 3(2). <https://doi.org/10.24912/jmk.v3i2.11893>
- Muhammad, R., & Pribadi, P. (2020). Pengaruh Kompensasi Bonus, Pendidikan dan Komposisi Gender Dewan Direksi Terhadap Manajemen Laba pada Bank Syariah di Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 6(1). <https://doi.org/10.29040/jiei.v6i1.601>
- Pratolo, S., Utami, T. P., & Sofyani, H. (2022). The Influence of Intellectual Capital on the Performance of Higher Education Institutions: The Mediation Role of Performance Measurement Systems. *JIA (Jurnal Ilmiah Akuntansi)*, 7(2), 200–216. <https://doi.org/10.23887/jia.v7i2.51850>
- Raharjo, E. (2007). Teori Agensi dan Teori Stewardship dalam Perspektif Akuntansi. *Fokus Ekonomi: Jurnal Ilmiah Ekonomi*, 2(1). [https://doi.org/10.1142/9789814632775\\_0003](https://doi.org/10.1142/9789814632775_0003)
- Saputra, W. S. (2019). Pengaruh Diversitas Dewan Direksi Terhadap Nilai Perusahaan. *Jurnal Riset Manajemen Dan Bisnis Fakultas Ekonomi UNIAT*, 4(3).
- Sudana, I. M., & Aristina, N. P. N. (2017). Chief Executive Officer (CEO) Power, Ceo Keluarga, dan Nilai Ipo Premium Perusahaan Keluarga di Indonesia. *Jurnal Akuntansi*, 21(2). <https://doi.org/10.24912/ja.v21i2.196>
- Sudana, I. M., & Dwiputri, E. (2018). Karakteristik CEO dan Kinerja Perusahaan Non-Kuangan yang Teraftar di Bursa Efek Indonesia. *Jurnal Manajemen dan Bisnis Indonesia*, 5(3). <https://doi.org/10.31843/jmbi.v5i3.169>
- Suryani, Y., Claudia, C., Wirda, F., Gustiawan, W., Yoyet, E., & Jumyetti, J. (2024). Clan Culture Implementation at Sang Hyang Seri with the Improvement Evaluation Method. *Journal of Tourism Economics and Policy*, 4(1), 01-12. <https://doi.org/10.38142/jtep.v4i1.921>
- Wijaya, M. A., & Darmawati, D. (2023). Pengaruh Karakteristik CEO Terhadap Profitabilitas Perusahaan pada Perusahaan Teknologi yang Terdaftar di BEI Tahun 2018-2022. *Jurnal Ekonomi Trisakti*, 3(2). <https://doi.org/10.25105/jet.v3i2.18084>
- Yelvita, F. S. (2022). Pengaruh CEO Financial Expertise, Complexity of Corporate, Profitabilitas, Ukuran Komite Audit, dan Ukuran Dewan Komisaris Terhadap Audit Report Lag. Skripsi: Universitas Islam Negeri Radeb Mas Said.

